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RUEKJCS/SECDEF WASHINGTON DC
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SUBJECT: BALOCHISTAN - MEETING WITH COAL MINE OWNERS

11. (SBU) Summary: In an October 16 meeting in Quetta, mine owners said coal mines are the province's largest employer, with 100-250 thousand employees. Owners described the difficulty in finding markets for their ore, attracting investment, and operating in areas of lawlessness where violence and targeted killings (including of mine owners) have pushed coal production down by 75 percent over the past three years. End summary.

Importing Labor

12. (U) Pol and Econ Offs met October 16 in Quetta with seven different coal mine owners to discuss Balochistan's coal mining industry. The owners said coal is by far the largest product mined in Balochistan, with between 500,000 and 1.8 million tons extracted annually. Owners described Balochistan's mines as "improvised," low-tech operations, requiring significant human labor to mine, package, and transport the ore. The owners estimate that between 100,000 and 250,000 workers are employed in mining or support industries in Balochistan. Two thirds of the workforce is seasonal, migrating from the Swat region following the harvest there and creating a "mining season." In season, sufficient labor is available until workers return north to begin planting the next year's crops in the spring. "We pay our workers 500-800 rupees (\$6-\$9.50) per day, which is very high, but the work is tough and dangerous so finding labor is always hard," they said.

13. (U) Owners described finding markets for the high-sulfur ore as their largest challenge. Balochistan's coal is shipped primarily to the Northwest Frontier Province and Punjab for use in brick-making. Its high sulfur content (between 3 to 8 percent) makes it less desirable for power generation and thus extremely difficult to market abroad. While prices fluctuate significantly, owners said their coal sells for between \$30-\$45 a ton, compared to \$45-\$60 for low-sulfur coal. The construction of a washing plant, estimated to cost USD \$250,000 - \$400,000, could sufficiently reduce sulfur levels, making Balochistan's ore more marketable; however, a "chronic lack of foreign and domestic investment" makes this option unlikely. Owners opined that the construction of a thermal power plant could also create a significant market, but again, a lack of investment and political interest has thus far prevented such a development.

Lawlessness Brings Down Productivity

14. (SBU) Owners said that lawlessness has reduced coal production by 75 percent over the past three years. Targeted killings and organized crime have exacerbated labor shortages, led to the closing of several mines, and cut off access to several viable mine sites. "We all have to pay gangs/mafia in order to operate, but still there is violence... and three mine owners have been among those killed."

15. (U) Owners said the Government's Inspectorate of Mines is well-run, with mine inspections every few months, high safety standards, and active enforcement of mining regulations such as a requirement to have one mine manager for every three mines. Despite these "high safety standards," mine owners estimate that 30 miners are killed each year, with 18 workers killed in a single explosion this past July.

Sector Needs Investment

16. (U) Owners described their efforts as "improvisational," with no foreign or domestic investment, a lack of modern technology, and continual uncertainty in the market. "We don't have the expertise to maintain our equipment, so when something breaks we scavenge the junkyards for parts." The limited market for Balochistan's coal leads to dramatic swings in demand, particularly when the brick-making industry stops production during rains and the monsoon season. "Coal is like a vegetable," one owner explained, "it only lasts about three months once it's out of the ground, so if you overproduce and can't find a buyer you lose significant amounts of money." The owners returned to their earlier theme that construction of a thermal power plant, or washing plant to open up wider markets, could help stabilize demand and increase mine profits

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and employment.

Comment

17. (SBU) The mine owners point to the law and order situation as the reason for the decline in the industry, but believe that with increased investment and an expanded market they will be able to revive operations. However, there are larger problems confronting them. Balochistan's long drought may pose difficulties in obtaining the water required for coal washing. The building of coal power plants would create a larger domestic market for the coal, and work to resolve the country's power generation deficit. However, until stability is returned to Balochistan, it is difficult for the province to attract investors. End comment.

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